



FEDERAL RESERVE SYSTEM

Proposed Agency Information Collection Activities; Comment Request

AGENCY: Board of Governors of the Federal Reserve System

SUMMARY: On June 15, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act (PRA), pursuant to 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instruments are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

DATES: Comments must be submitted on or before [insert date 60 days after publication in the Federal Register].

ADDRESSES: You may submit comments, identified by *FR Y-9C* by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at

<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- FAX: 202/452-3819 or 202/452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.

All public comments are available from the Board's web site at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room MP-500 of the Board's Martin Building (20th and C Streets, N.W.) between 9:00 a.m. and 5:00 p.m. on weekdays.

Additionally, commenters should send a copy of their comments to the OMB Desk Officer—Shagufta Ahmed --Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235 725 17th Street, NW., Washington, DC 20503 or by fax to 202-395-6974.

FOR FURTHER INFORMATION CONTACT: A copy of the PRA OMB submission, including the proposed reporting form and instructions, supporting statement, and other documentation will be placed into OMB's public docket files, once approved. These documents will also be made available on the Federal Reserve Board's public website at: <http://www.federalreserve.gov/boarddocs/reportforms/review.cfm> or may be requested from the agency clearance officer, whose name appears below.

Federal Reserve Board Clearance Officer —Cynthia Ayouch--Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551 (202-452-3829) Telecommunications Device for the Deaf (TDD) users may contact (202-263-4869), Board of Governors of the Federal Reserve System, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

Request for comment on information collection proposals

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

- a. Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions; including whether the information has practical utility;
- b. The accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;
- c. Ways to enhance the quality, utility, and clarity of the information to be collected;
- d. Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

e. Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Proposal to approve under OMB delegated authority the revision, without extension, of the following report:

Report title: Financial Statements for Bank Holding Companies.¹

Agency form number: FR Y-9C.

OMB control number: 7100-0128.

Frequency: Quarterly.

Reporters: Bank holding companies.

Estimated annual reporting hours: 192,561 hours.

Estimated average hours per response: 47.15 hours.

Number of respondents: 1,021.

General description of report: This information collection is mandatory (12 U.S.C. 1844(c)). Confidential treatment is not routinely given to the data in these reports.

However, confidential treatment for the reporting information, in whole or in part, can be requested in accordance with the instructions to the form, pursuant to sections (b)(4), (b)(6), and (b)(8) of FOIA (5 U.S.C. §§522(b)(4), (b)(6), and (b)(8)).

Abstract: The FR Y-9C consists of standardized financial statements similar to the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Reports) (FFIEC 031 & 041; OMB No. 7100-0036) filed by

¹ This family of reports also contains the following mandatory reports, which are not being revised: the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP), the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP), the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES), and the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS).

commercial banks. The FR Y-9C collects consolidated data from bank holding companies (BHCs). The FR Y-9C is filed by top-tier BHCs with total consolidated assets of \$500 million or more. (Under certain circumstances defined in the General Instructions, BHCs under \$500 million may be required to file the FR Y-9C.) The Federal Reserve proposes several changes to the FR Y-9C reporting requirements to better understand BHCs' risk exposures, to better support macroeconomic analysis and monetary policy purposes, and to collect certain information prescribed by changes in accounting standards.

Current Actions: The Federal Reserve proposes the following revisions and clarifications to the FR Y-9C effective June 30, 2012: (1) add a section to Schedule HC-C, Loans and Lease Financing Receivables, to collect information on the allowance for loan and lease losses by loan category; (2) add two data items to Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities, to collect the amount of representation and warranty reserves for 1-4 family residential mortgage loans sold; (3) add a data item to Schedule HC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, to collect the outstanding balance of purchased credit impaired loans by past due and nonaccrual status; (4) add a schedule to Schedule HC-U, Loan Origination Activity in Domestic Offices, to collect information on loan originations; and (5) modify the reporting instructions to clarify the reporting and accounting treatment of specific valuation allowances

For the June 30, 2012, report date, institutions may report reasonable estimates for any new or revised data items in their FR Y-9C report for if the information is not readily available.

Proposed Revisions – FR Y-9C

A. Proposed Revisions Related to Call Report Revisions

The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report. In the past, BHCs have commented that changes should be made to the FR Y-9C in a manner consistent with changes to the Call Report to reduce reporting burden.

A.1 Allowance for Loan and Lease Losses by Loan Category (ALLL)

In July 2010, the Financial Accounting Standards Board (FASB) published Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), which amended Accounting Standards Codification (ASC) Topic 310, Receivables. The main objective of the update was to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Examples of financing receivables included loans, credit cards, notes receivable, and leases (other than an operating lease). The update was intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses.

To achieve its main objective, ASU 2010-20 requires, in part, that an entity disclose by portfolio segment “[t]he balance in the allowance for credit losses at the end of each period disaggregated on the basis of the entity’s impairment method” and “[t]he recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses, disaggregated . . . in the same manner.”² As

² ASC paragraphs 310-10-51-11B(g) and (h).

defined in the ASC Master Glossary, a portfolio segment is “[t]he level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses.” For each portfolio segment, the disaggregation based on impairment method requires separate disclosure of the allowance and the related recorded investment amounts for financing receivables collectively evaluated for impairment, individually evaluated for impairment, and acquired with deteriorated credit quality.³ This disaggregated disclosure requirement is effective for public entities for the first interim or annual reporting period ending on or after December 15, 2010, and for nonpublic entities for annual reporting periods ending on or after December 15, 2011.

Consistent with the ASU 2010-20 disclosure requirements described above, the Federal reserve proposes to revise the June 2012 FR Y-9C report to capture disaggregated detail of institutions’ allowances for loan and lease losses (ALLL) and related recorded investments for loans and leases from institutions with \$1 billion or more in total assets. Disaggregated data would be reported for key loan categories for which the recorded investments are reported in Schedule HC-C, Loans and Lease Financing Receivables. The Federal Reserve also proposes to collect this information on the basis of impairment method for each loan category. To the extent that an institution uses multiple impairment methods for a given loan category, the institution would report

³ ASC paragraph 310-10-51-11C. Allowances for amounts collectively evaluated for impairment are determined under ASC Subtopic 450-20, Contingencies–Loss Contingencies (formerly FASB Statement No. 5, “Accounting for Contingencies”), allowances for amounts individually evaluated for impairment are determined under ASC Section 310-10-35, Receivables–Overall–Subsequent Measurement (formerly FASB Statement No. 114, “Accounting by Creditors for Impairment of a Loan”), and allowances for loans acquired with deteriorated credit quality are determined under ASC Subtopic 310-30, Receivables–Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”).

the ALLL and recorded investment for each applicable impairment method for that loan category. The Federal Reserve believes that the use of key loan categories reported on Schedule HC-C for the proposed new disaggregated disclosures is consistent with the meaning of the term portfolio segment in ASU 2010-20 and with the banking agencies' supervisory guidance on ALLL methodologies.⁴ More specifically, the Federal Reserve proposes to collect from institutions with \$1 billion or more in total assets disaggregated allowance and recorded investment data on the basis of impairment method (collectively evaluated for impairment,⁵ individually evaluated for impairment, and acquired with deteriorated credit quality) for following loan categories:

- Construction, land development, and other land loans;
- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by 1-4 family residential properties;
- Loans secured by multifamily (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;⁶
- Commercial and industrial loans;
- Credit card loans to individuals for household, family, and other personal expenditures;

⁴ See the banking agencies' July 2001 "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions" at <http://www.federalreserve.gov/boarddocs/srletters/2001/SR0117a1.pdf>.

⁵ For loans collectively evaluated for impairment, an institution would also report the amount of any unallocated portion of its ALLL.

⁶ The first five loan categories would be reported on a domestic office only basis.

- All other loans to individuals for household, family, and other personal expenditures; and
- All other loans and all lease financing receivables.

Currently, the FR Y-9C report does not provide detail on the components of the ALLL disaggregated by loan category in the manner prescribed by ASU 2010-20. Rather, only the amount of the overall ALLL is reported with separate disclosure of the total amount of the allowance for loans acquired with deteriorated credit quality.⁷ Therefore, when conducting off-site evaluations of the level of an individual institution's overall ALLL and changes therein, examiners and analysts cannot determine whether the institution is releasing loan loss allowances in some loan categories and building allowances in others. Collecting more detailed ALLL information would allow the Federal Reserve to more finely focus efforts related to the ALLL and credit risk management and, in conjunction with past due and nonaccrual data currently reported by loan category that are used in a general assessment of an institution's credit risk exposures, to better evaluate the appropriateness of its ALLL. As an example, it is currently not possible to differentiate the ALLL allocated to commercial real estate (CRE) loans from the remainder of the ALLL at institutions with CRE concentrations. By collecting more detailed ALLL information, examiners and analysts would then better understand how institutions with such concentrations are building or releasing allowances, the extent of ALLL coverage in relation to their CRE portfolios, and how this might differ among institutions.

⁷ Credit card specialty banks and other institutions with a significant volume of credit card receivables also disclose the amount, if any, of ALLL attributable to retail credit card fees and finance charges.

The proposed additional detail on the composition of the ALLL by loan category would also be useful for analysis of the depository institution system. As of June 30, 2011, institutions with \$1 billion or more in total assets, which would report the additional detail under this proposal, held nearly 92 percent of the ALLLs held by all institutions. More granular ALLL information would assist the Federal Reserve in understanding industry trends related to the build-up or release of allowances for specific loan categories. The information would also support comparisons of ALLL levels by loan category, including the identification of differences in ALLL allocations by institution size. Understanding how institutions' ALLL practices and allocations differ over time for particular loan categories as economic conditions change may also provide insights that can be used to more finely tune supervisory procedures and policies.

The Federal Reserve requests public comment on the degree to which the proposed disaggregated detail of institutions' ALLLs corresponds to institutions' current allowance methodologies, both with respect to the key loan categories included in the proposal and the separate reporting of allowance amounts on the basis of impairment method for each loan category. In addition, comment is invited on the appropriateness of including an item in the FR Y-9C report in which institutions would report the amount of any unallocated portion of the ALLL for loans collectively evaluated for impairment.⁸ To the extent that the proposed information is not captured in institutions' automated data collection systems, the Federal Reserve requests comment on institutions' ability to begin

⁸ The Federal Reserve notes that the table in ASC paragraph 310-10-55-7 illustrating the required disclosure by portfolio segment of the end-of-period balance of the ALLL disaggregated on the basis of impairment method and the end-of-period recorded investment in financing receivables related to each ALLL balance includes an unallocated portion of the ALLL.

to capture this ALLL and related recorded investment information associated with outstanding loans.

A.2 Loan Origination Activity

As highlighted by the recent financial crisis and its aftermath, the ability to assess credit availability is a key consideration for monetary policy, financial stability, and the supervision and regulation of the banking system. However, the information currently available to policymakers both within and outside the Federal Reserve is insufficient to accurately monitor the extent to which depository institutions are providing credit to households and businesses. In its current form, the FR Y-9C report collects data on the amount of loans to both households and businesses that are outstanding on institutions' books at the end of each quarter. However, the underlying flow of loan originations cannot be deduced from these quarter-end data owing to the myriad of factors and banking activities (other than charge-offs for which data are reported) that routinely affect the amount of outstanding loans held by institutions, including activities such as loan paydowns, extensions, purchases and sales, securitizations, and repurchases. Direct reporting of loan originations would allow the Federal Reserve to isolate the flow of credit creation from the effects of these other banking activities.

Economic research points to a crucial link between the availability of credit and macroeconomic outcomes.⁹ For example, the rapid contraction in both total loans held on institutions' balance sheets and in credit lines held off their balance sheets in the

⁹ See, for example, A. K. Kashyap and J. C. Stein (2000), "What Do a Million Observations on Banks Say About the Transmission of Monetary Policy," *The American Economic Review*, Vol. 90, No. 3, pages 407-428. See also Michael Woodford, "Financial Intermediation and Macroeconomic Analysis," *Journal of Economic Perspectives*, Fall 2010, volume 24, issue 4, pages 21-44.

volatile period following the collapse of Lehman Brothers in the fall of 2008 likely contributed to the depth of the economic recession as well as to the subsequent weakness in the recovery in economic activity. As a result, encouraging the expansion of banking organization loan supply was a primary goal of most of the emergency liquidity facilities established during the height of the crisis and of the Troubled Asset Relief Program (TARP).¹⁰ Likewise, numerous authors have shown a relationship between bank lending and changes in bank capital.¹¹ For example, during the early 1990s, lending was also significantly depressed while banking organizations' capital cushions were being rebuilt, leading some analysts to describe the period as a "credit crunch" that resulted in a materially slower recovery in economic activity.

However, the lack of data on loan originations made it very difficult for policymakers to assess the sources of the steep declines in outstanding loans and credit lines during the recent crisis and during the early 1990s "credit crunch." In fact, a fall in outstanding loans could be driven by reduced demand for credit, reduced supply of credit by banking organizations, or both. Looking only at changes in outstanding loan balances can give misleading signals and mask important shifts in the supply of, and demand for, credit. Policymakers may react differently in each of these cases.

The sources of loan growth—such as whether loans were made under commitment or not under commitment—also contain important insights for those

¹⁰ Chairman Ben S. Bernanke, "Troubled Asset Relief Program and the Federal Reserve's liquidity facilities," Testimony before the Committee on Financial Services, U.S. House of Representatives, November 18, 2008, at <http://www.federalreserve.gov/newsevents/testimony/bernanke20081118a.htm>.

¹¹ See, for example, Joe Peek and Eric Rosengren (1995), "The Capital Crunch: Neither a Borrower nor a Lender Be," *Journal of Money, Credit and Banking*, volume 27(3), pages 625-638, August. See also Ben Bernanke and Cara Lown (1991), "The Credit Crunch," *Brookings Papers on Economic Activity*, 2:1991, pages 205-239.

monitoring financial stability or developing macroprudential regulatory policies.¹² As observed in the fall of 2008, strong loan growth that is driven primarily by customers drawing down funds from preexisting lending commitments can be a sign of stresses in financial markets, and therefore a signal that the economy could be slowing down. In contrast, strong growth in credit that includes robust extensions to new customers could signal a broad pickup in demand for financing and hence renewed economic growth, or it could suggest that institutions have eased their lending standards. Accordingly, rapid loan growth can be an important indicator of the safety and soundness of individual institutions.¹³ Loan origination data, if collected from depository institutions, would better identify when such developments warrant greater supervisory scrutiny.

Credit availability to small businesses is widely considered an important driver of economic growth. As a result, the significant contraction in business loans on institutions' books over the past several years has generated calls from policymakers (and the public) to better understand the credit flows of small businesses.¹⁴ The collection of

¹² Moritz Schularick and Alan M. Taylor, "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles and Financial Crises, 1870-2008," 2009, National Bureau of Economic Research, Inc., NBER Working Papers: 15512.

¹³ William R. Keeton, "Does Faster Loan Growth Lead to Higher Loan Losses?" *Federal Reserve Bank of Kansas City Economic Review*, 2nd Quarter 1999, volume 84, issue 2, pages 57-75, and Deniz Igan and Marcelo Pinheiro, "Exposure to Real Estate in Bank Portfolios," *Journal of Real Estate Research*, January-March 2010, volume 32, issue 1, pages 47-74.

¹⁴ See Federal Reserve Board, Report to Congress on the Availability of Credit to Small Business, 2007, at <http://www.federalreserve.gov/boarddocs/rptcongress/smallbusinesscredit/sbfreport2007.pdf>. See also testimony before the House Financial Services Committee (May 18, 2010) at <http://cybercemetery.unt.edu/archive/cop/20110401231854/http://cop.senate.gov/documents/testimony-051810-atkins.pdf> and Congressional Oversight Panel Oversight Report, The Small Business Credit Crunch and the Impact of the TARP (May 13, 2010), at <http://cybercemetery.unt.edu/archive/cop/20110402035902/http://cop.senate.gov/docume>

data on originations of loans to businesses by the size of the original loan would provide a window into the functioning of the important small business market.¹⁵

In addition, if loan origination information were available, it would also be valuable in designing, and assessing the effectiveness of, government policies for depository institutions and other financial markets. For instance, policymakers would be keenly attuned to whether, and if so, to what extent, the changes to the capital and liquidity requirements for large institutions that will be contained in regulations implementing the Dodd-Frank Act and the international Basel III agreement affect depository institution loan supply. Although these new regulations would only directly affect a few dozen large banking organizations, smaller banking organizations also may adjust their lending policies in response to the changes at large banking organizations.

Loan data currently available to the Federal Reserve provide insufficient detail to accurately monitor credit creation by depository institutions. The FR Y-9C report currently collects data on the recorded amounts of a wide variety of loan categories in Schedule HC-C, Loans and Lease Financing Receivables. Schedule HI-B, Part I, Charge-Offs and Recoveries on Loans and Leases, collects the flow of gross charge-offs and recoveries in many of the loan categories for which recorded amounts are reported in Schedule HC-C. On Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities (in Domestic Offices), which was added to the FR Y-9C report in 2006, certain bank holding companies report originations and purchases of residential mortgage loans

<https://www.federalreserve.gov/monetarypolicy/monetarypolicy-051310-report.pdf>.

¹⁵ The Call Report and TFR currently collect the outstanding amount of small dollar loans to businesses and farms where, for loans to businesses, “small dollar” is defined as loans (not made under commitments) that have original amounts of \$1 million or less and draws on commitments where the total commitment amount is \$1 million or less.

held for sale, but not originations of loans held for investment. On Schedule HC-S, Servicing, Securitization, and Asset Sale Activities, bank holding companies report the outstanding principal balance of seven categories of loans sold and securitized for which the institution has retained servicing or has provided recourse or other credit enhancements.¹⁶ For these same seven loan categories, bank holding companies also report the unpaid principal balance of loans they have sold (not in securitizations) with recourse or other seller-provided credit enhancements. No data exist for those loans bank holding companies have sold without recourse or seller-provided credit enhancements when servicing has not been retained.

In contrast, savings associations currently report data on loan originations, sales, and purchases in the Thrift Financial Report (TFR) (OTS 1313; OMB No. 1550-0023). On TFR Schedule CF, Consolidated Cash Flow Information, savings associations report by major loan category the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter. In addition, on TFR Schedule LD, Loan Data, savings associations report the amount of net charge-offs, purchases, originations, and sales of certain 1-4 family and multifamily residential mortgages with high loan-to-value ratios.¹⁷

The Federal Reserve proposes to begin collecting data on loan originations because, as outlined in detail above, this information would be of substantial benefit in

¹⁶ The seven categories are (1) 1-4 family residential mortgages, (2) home equity loans, (3) credit card loans, (4) auto loans, (5) other consumer loans, (6) commercial and industrial loans, and (7) all other loans, all leases, and all other assets (commercial real estate loans, for example, are subsumed in this category).

¹⁷ Savings associations will discontinue filing the TFR after the December 31, 2011, report date, which means that these data, as currently reported in the TFR, will no longer be collected going forward.

light of the fact that the data currently available for banking organizations are inadequate for monetary policy and financial stability regulators to monitor and analyze credit flows and because the proposed data will support the Federal Reserve's supervisory efforts.

More specifically, the Federal Reserve proposes to collect quarterly information on loan originations for several important loan categories by introducing a new Schedule HC-U, Loan Origination Activity (in Domestic Offices). Under this proposal, all institutions would report in column A of Schedule HC-U, for certain loan categories reported in Schedule HC-C, Loans and Lease Financing Receivables, the quarter-end balance sheet amount for those loans originated during the quarter that ended on the report date.¹⁸ Institutions with \$1 billion or more in total assets would also report, for relevant loan categories, (1) the portion of this quarter-end amount that was originated under a newly established commitment¹⁹ (column B of Schedule HC-U) and (2) the portion that was not originated under a commitment (column C of Schedule HC-U). In general, the additional data that would be reported in columns B and C of Schedule HC-U by institutions with \$1 billion or more in total assets represent two ways that institutions originate new loans, both of which affect the amounts of loans on institutions' balance sheets.

¹⁸ For example, a loan was originated for \$120,000 during the quarter. As a result of principal payments received during the quarter, the recorded amount of the loan as reported on the institution's balance sheet (Schedule HC) and in the loan schedule (Schedule HC-C) at quarter-end was \$101,000. The institution would report the \$101,000 quarter-end recorded amount for this loan in column A of proposed Schedule HC-U. In general, in reporting amounts in column A, if a loan origination date is unknown, the reporting institution would be instructed to use the date that the loan was first booked by the institution.

¹⁹ A newly established commitment is one for which the terms were finalized and the commitment became available for use during the quarter that ended on the report date. A newly established commitment also includes a commitment that was renewed during the quarter that ended on the report date.

In the proposed originations schedule, all institutions would report the amounts reported in Schedule HC-C, as of the quarter-end report date that were originated during the quarter that ended on the report date for the following loan categories:

- 1-4 family residential construction loans;
- Other construction loans and all land development and other land loans;
- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by first liens on 1-4 family residential properties;
- Closed-end loans secured by junior liens on 1-4 family residential properties;
- Loans secured by multifamily (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;²⁰
- Loans to commercial banks and other depository institutions in the U.S.;
- Loans to banks in foreign countries;
- Loans to finance agricultural production and other loans to farmers;
- Commercial and industrial loans to U.S. addressees with original amounts of \$1,000,000 or less;
- Commercial and industrial loans to U.S. addressees with original amounts of more than \$1,000,000;
- Consumer credit card loans;
- Consumer automobile loans;
- Other consumer loans; and
- Loans to nondepository financial institutions.

²⁰ The first seven loan categories would be reported on a domestic office only basis.

In addition, for each of the preceding loan categories, except as noted below, institutions with \$1 billion or more in total assets would separately disclose the portion of the quarter-end amount of loans originated during the quarter that was originated under a newly established commitment and the portion that was not originated under a commitment. Closed-end loans secured by first liens on 1-4 family residential properties, closed-end loans secured by junior liens on 1-4 family residential properties, and consumer automobile loans would be excluded from both of these additional disclosures. Consumer credit card loans and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit would be excluded from the disclosure of loans not originated under a commitment because it is assumed such loans are always extended under commitment.

Loan originations that were made under a newly established commitment or a commitment that was renewed during the quarter are likely to more closely reflect the current lending standards and loan terms being applied by an institution, so an expansion or contraction in this subset of loans is indicative of current supply and demand conditions. In this regard, research has shown that loans not made under a commitment are more sensitive to changes in monetary policy than loans made under a commitment.²¹ In contrast, loans drawn under previous commitments reflect lending standards and terms that were in place at the time the loan agreements were reached. Hence, changes in outstanding balances associated with previously committed lines are more indicative of

²¹ Donald P. Morgan, "The Credit Effects of Monetary Policy: Evidence Using Loan Commitments," *Journal of Money, Credit and Banking*, Vol. 30, No. 1 (Feb. 1998), pages 102-118.

demand for funds from the firms that have these lines, as institutions are less able to ration such credit.

As mentioned above, all savings associations, many of which are small, have for many years reported in the TFR the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter by major loan category. Thus, the additional reporting burden of proposed Schedule HC-U may be manageable for such institutions. Nevertheless, because bank holding companies have not previously been required to report data pertaining to loan originations for FR Y-9C reporting purposes, the Federal Reserve recognizes that institutions' data systems may not at present be designed to identify and capture data on loans originated during the quarter that ended on the report date. The Federal Reserve requests comment on the ability of institutions' existing loan systems to generate the proposed data for Schedule HC-U, and if this information is not currently available, how burdensome it would be to adapt current systems to report origination data as proposed in Schedule HC-U. To the extent that existing loan systems enable institutions to track data on loans originated during the quarter by loan category in a different manner than has been proposed, institutions are invited to suggest alternative ways in which such origination data could be collected in the FR Y-9C report and to explain how an alternative would meet the Federal Reserve's data needs as described above in this section.

A.3 Past Due and Nonaccrual Purchased Credit Impaired Loans

The FR Y-9C report currently collects information regarding the past due and nonaccrual status of loans, leases, and other assets in Schedule HC-N. To determine whether an asset is past due for purposes of completing this schedule, an institution must look to the borrower's performance in relation to the contractual terms of the asset. Over the past few years, there has been a substantial increase in the amount of assets reported in Schedule HC-N as past due 90 days or more and still accruing. At some institutions, a large portion of this increase is related to loans subject to the accounting requirements set forth in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly American Institute of Certified Public Accountants Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"), i.e., purchased credit-impaired loans, that were acquired in business combinations, including acquisitions of failed institutions, and other transactions. Loans accounted for under ASC Subtopic 310-30 are initially recorded at their purchase price (in a business combination, fair value). To the extent that the cash flows expected to be collected exceed the purchase price of the loans acquired and the acquiring institution has sufficient information to reasonably estimate the amount and timing of these cash flows, the institution recognizes interest income using the interest method. Otherwise, the loans should be placed in nonaccrual status.

Because loans accounted for under ASC Subtopic 310-30 are impaired at the time of purchase, it is possible for institutions to hold on-balance sheet assets purchased at a deep discount that are contractually 90 days or more past due, but on which interest is being accrued because the amount and timing of the expected cash flows on the assets

can be reasonably estimated. Currently, insufficient information is collected in Schedule HC-N to determine the volume of purchased credit-impaired loans included in the loan amounts reported as “past due 90 days or more and still accruing” (or reported in the other past due and nonaccrual categories in the schedule). As the volume of assets reported in the three past due and nonaccrual columns in Schedule HC-N has increased at many institutions that also report holdings of loans accounted for under ASC Subtopic 310-30, the Federal Reserve cannot determine whether this growth is due to purchased credit-impaired loans or whether the source of the increase has been deterioration in the credit quality and performance among the assets the institution originated (or purchased without evidence of credit problems at acquisition). Better understanding the source of these increases would assist the Federal Reserve in determining the need to adjust supervisory strategies for individual institutions.

Because of the significant number of acquisitions by depository institutions of loans accounted for under ASC 310-30 over the past few years and the expected number of future acquisitions, the Federal Reserve proposes to collect additional information in Schedule HC-N to segregate the amount of purchased credit-impaired loans that are included in the past due and nonaccrual loans reported in this schedule. New Memorandum items would be added to Schedule HC-N to separately collect from all institutions the total outstanding balance of purchased credit-impaired loans accounted for under ASC 310-30 that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status. The related carrying amount of these loans (before any post-acquisition loan loss allowances) would also be reported by past due and nonaccrual status. This information would mirror the data reported in

Memorandum item 5, “Purchased impaired loans held for investment accounted for in accordance with AICPA Statement of Position 03-3,” in Schedule HC-C. Based on the information reported in Memorandum item 5, there are less than 300 institutions that hold purchased credit-impaired loans and would be affected by the proposed new Schedule HC-N Memorandum items.

A.4 Representation and Warranty Reserves

When institutions sell or securitize mortgage loans, they typically make certain representations and warranties to the investors or other purchasers of the loans at the time of the sale and to financial guarantors of the loans sold. The specific representations and warranties may relate to the ownership of the loan, the validity of the lien securing the loan, and the loan’s compliance with specified underwriting standards. Under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, “Accounting for Contingencies”), institutions are required to accrue loss contingencies relating to the representations and warranties made in connection with their mortgage securitization activities and mortgage loan sales when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. In October 2010, the Division of Corporation Finance of the Securities and Exchange Commission (SEC) sent a letter to certain public companies reminding them of the need to “provide clear and transparent disclosure regarding your obligations relating to the[se] various representations and warranties.”²² A review of a sample of disclosures about mortgage loan representations and warranties by public banking organizations in their SEC filings

²² The Division of Corporation Finance’s “Sample Letter Sent to Public Companies on Accounting and Disclosure Issues Related to Potential Risks and Costs Associated with Mortgage and Foreclosure-Related Activities or Exposures” can be accessed at <http://www.sec.gov/divisions/corpfin/guidance/cforeclosure1010.htm>.

since October 2010 reveals that these disclosures tend to distinguish between obligations to U.S. government-sponsored entities and other parties.

At present, BHCs with \$1 billion or more in total assets and smaller BHCs with significant 1-4 family residential mortgage banking activities are required to complete Schedule HC-P, 1-4 Family Residential Mortgage Banking Activities. These BHCs report the amount of 1-4 family residential mortgage loans previously sold subject to an obligation to repurchase or indemnify that have been repurchased or indemnified during the quarter. However, the amount of representation and warranty reserves attributable to residential mortgages as of quarter-end included in other liabilities on these institutions' balance sheets is not separately reported in Schedule HC-P.

Accordingly, building on the SEC's guidance concerning transparent disclosure in this area, the Federal Reserve proposes to add two data items to Schedule HC-P in which institutions required to complete this schedule would report the quarter-end amount of representation and warranty reserves for 1-4 family residential mortgage loans sold (in domestic offices), including those mortgage loans transferred in securitizations accounted for as sales. The amount of reserves for representations and warranties made to U.S. government-sponsored entities (the Federal National Mortgage Association or Fannie Mae, the Federal Home Loan Mortgage Corporation or Freddie Mac, and the Government National Mortgage Association or Ginnie Mae) (Schedule HC-P, data item 7.a) would be reported separately from the amount of reserves for representations and warranties made to other parties (Schedule HC-P, data item 7.b).

A.5 Instructional Revisions

A.5.(1) Specific Valuation Allowances

Savings associations that currently file a Thrift Financial Report (TFR) may create a “Specific Valuation Allowance” (SVA) in lieu of taking a charge-off to record the loss associated with a loan when the institution determines that it is likely that the amount of the loss classification will change due to market conditions. The use of an SVA allows a savings association to reduce or increase the amount of the SVA as market conditions change. When a charge-off is taken, however, the only way an institution can recover the loss is through an actual cash recovery. A savings association is not permitted to use an SVA in lieu of a charge-off when it classifies certain credits as losses such as unsecured loans, consumer loans, and credit cards, and in instances where the collateral underlying a secured loan will likely be acquired through foreclosure or repossession. In those cases, only a charge-off is appropriate.

As announced in 76 FR 53129 published on August 25, 2011, many savings and loan holding companies (SLHCs) will be required to file the FR Y-9C report, which would consolidate the SLHC savings association subsidiary, beginning with the March 31, 2012, reporting period (unless the institution elects to begin filing the FR Y-9C before that time). Once SLHCs begin to file the FR Y-9C and savings associations begin to file the Call Report, they will be required to follow FR Y-9C and Call Report reporting instructions and the banking agencies’ policies regarding loss classifications, which would require a charge-off for all confirmed losses and do not allow the creation or use of a SVA as described above. Therefore, the use of SVAs will not be permitted for any SLHC after December 31, 2011. Existing reporting instructions

will be modified to clarify this point. Also the Federal Reserve will issue additional supplemental guidance to explain how any existing SVAs should be treated when an institution no longer files the TFR.

A.5.(2) Capital Contributions in the Form of Cash or Notes Receivable

The Federal Reserve often encounters or receives questions about capital contributions in the form of a note receivable. The capital contribution may involve a sale of capital stock or a contribution to additional paid-in capital (surplus) that often takes place, or is expected to take place, at or shortly before a quarter-end report date. In other cases, capital contributions are in the form of cash, with some occurring before quarter-end and others occurring after quarter-end. The regulatory reporting issue that arises with respect to these capital contributions is when and under what circumstances can they be reflected as an increase in the amount of equity capital reported on the balance sheet and thereby be included in regulatory capital.

Although the accounting for capital contributions is not currently addressed in the FR Y-9C reporting instructions, institutions are expected to report capital contributions in their FR Y-9C report in accordance with generally accepted accounting principles (GAAP). In summary, capital contributions in the form of cash are appropriately recognized in equity capital on the balance sheet when received. Capital contributions in the form of a note receivable, executed prior to quarter-end, increase an institution's equity capital at quarter-end only when the note is collected prior to issuance of the institution's financial statements (including its FR Y-9C) for that quarter. To provide guidance to institutions and examiners on the appropriate reporting of these capital

contributions, the Federal Reserve proposes to add a new Glossary entry to the FR Y-9C instructions.

Capital Contributions of Cash and Notes Receivable: An institution may receive cash or a note receivable as a contribution to its equity capital. The transaction may be a sale of capital stock or a contribution to paid-in capital (surplus), both of which are referred to hereafter as capital contributions. The accounting for capital contributions in the form of notes receivable is set forth in ASC Subtopic 505-10, Equity – Overall (formerly EITF Issue No. 85-1, “Classifying Notes Received for Capital Stock”) and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). This Glossary entry does not address other forms of capital contributions, for example, nonmonetary contributions to equity capital such as a building.

A capital contribution of cash should be recorded in an institution’s balance sheet and income statement when received. Therefore, a capital contribution of cash prior to a quarter-end report date should be reported as an increase in equity capital in the institution’s reports for that quarter (in Schedule HI-A, item 5 or 6, as appropriate). A contribution of cash after quarter-end should not be reflected as an increase in the equity capital of an earlier reporting period.

When an institution receives a note receivable, rather than cash, as a capital contribution, ASC Subtopic 505-10 states that it is generally not appropriate to report the note as an asset. As a consequence, the predominant practice is to offset the note and the capital contribution in the equity capital section of the balance sheet, i.e., the note receivable is reported as a reduction of equity capital. In this situation, the capital stock

issued or the contribution to paid-in capital should be reported in Schedule HC, item 23, 24, or 25, as appropriate, and the note receivable should be reported as a deduction from equity capital in Schedule HC, item 26.c, “Other equity capital components.” No net increase in equity capital should be reported in Schedule HI-A, Changes in Bank Holding Company Equity Capital. In addition, when a note receivable is offset in the equity capital section of the balance sheet, accrued interest receivable on the note also should be offset in equity (and reported as a deduction from equity capital in Schedule HC, item 26.c), consistent with the guidance in ASC Subtopic 505-10. Because a nonreciprocal transfer from an owner or another party to an institution does not typically result in the recognition of income or expense, the accrual of interest on a note receivable that has been reported as a deduction from equity capital should be reported as additional paid-in capital rather than interest income.

However, ASC Subtopic 505-10 provides that an institution may record a note received as a capital contribution as an asset, rather than a reduction of equity capital, only if the note is collected in cash “before the financial statements are issued.” The note receivable must also satisfy the existence criteria described below. When these conditions are met, the note receivable should be reported separately from an institution’s other loans and receivables in Schedule HC-F, item 6, “Other [assets].”

For purposes of these reports, the financial statements are considered issued at the earliest of the following dates:

- (1) The submission deadline for the FR Y-9C (40 calendar days after the quarter-end report date, except for year-end reporting, for which the deadline is 45 calendar days after quarter-end);

- (2) Any other public financial statement filing deadline to which the institution is subject; or
- (3) The actual filing date of the institution's public financial reports, including the filing of its FR Y-9C report or a public securities filing by the institution.

To be reported as an asset, rather than a reduction of equity capital, as of a quarter-end report date, a note received as a capital contribution (that is collected in cash as described above) meet the definition of an asset under generally accepted accounting principles by satisfying all of the following existence criteria:

- (1) There must be written documentation providing evidence that the note was contributed to the institution prior to the quarter-end report date by those with authority to make such a capital contribution on behalf of the issuer of the note;
- (2) The note must be a legally binding obligation of the issuer to fund a fixed and determinable amount by a specified date; and
- (3) The note must be executed and enforceable before quarter-end.

If a note receivable for a capital contribution obligates the note issuer to pay a variable amount, the institution must offset the note and equity capital. Similarly, an obligor's issuance of several notes having fixed face amounts, taken together, would be considered a single note receivable having a variable payment amount, which would require all the notes to be offset in equity capital as of the quarter-end report date.

Board of Governors of the Federal Reserve System, November 15, 2011.

Robert deV. Frierson
Deputy Secretary of the Board.
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